pp. 8 and 9; NECTA Brief, pp. 2 and 3; OCC Brief, p. 15. Existing cost separations rules require SNET to separate the costs for video service; however, these issues are not properly addressed in this proceeding. The Department has already indicated the methodology for determining the costs of video dialtone, like all other services, will be determined in this docket, but the allocation issues will be addressed in Docket No. 94-10-03, DPUC Investigation into the Southern New England Telephone Company's Intrastate Depreciation Rates, in Docket No. 95-03-01, Application of the Southern New England Telephone Company for Financial Review and Proposed Framework for Alternative Regulation, and in Docket No. 95-03-10, Application of The Southern New England Telephone Company for Approval to Conduct a Dial Tone Transport and Switching Market Trial. Tr. 03/01/95, p. 586. The same incremental cost methodology will be used for all services and unbundled elements.

IV. FINDINGS AND CONCLUSIONS

A. FINDINGS

1. Broader market participation in local exchange services, the consequent authorization of local service resale, unbundling of the local network, and the eventual reclassification of some telecommunications services as emerging competitive and competitive necessitate greater attention by the Department to identifying the most appropriate analytical tools for assigning common and joint costs in a competitive environment.

2. Certain principles and precepts established in the Departments Decisions in Docket Nos. 88-03-31 and 89-12-05 continue to be relevant to and provide a useful foundation for critically examining costs of providing telecommunications services in a participative market, i.e. any cost methodology adopted by the Department must:

    - assign costs based on cost causation;
    - be documented in a manner that the source of the data can be audited;
    - must be forward looking in perspective;
    - must distinguish among costs incurred on behalf of noncompetitive, emerging competitive and competitive services;
    - must provide an accurate means of measuring incremental cost for services;
    - must recognize the effect of broader market participation on the goals of establishing equitable and reasonable rates;

- must provide consideration to both Fully Distributed Costs (FDC) and Long-Run Incremental Cost (LRIC);

- must promote economic efficiency (i.e. should maximize the utilization of existing resources);

- must preclude any remaining noncompetitive services from being allocated costs otherwise properly attributable to competitive services;

- must allow the burden of common costs, such as general overhead, to be shared fairly by all users; and

- must not pose an undue administrative and financial burden on the company required to perform it.

3. The Department utilizes SNET's long run cost study results as a guide to establish a minimum floor for a rate level.

4. The LRIC method examines an increment of demand smaller than the total demand for the service and the additional cost per unit that the supplier will incur or save in providing the service.

5. The TSLRIC(SNET) method can be used to examine the incremental cost of providing the total service demand that the supplier will incur using overall least cost technology using the existing network as a starting point.

6. SNET has modified its LRIC approach to include costs it did not consider prior to the Department's order to move toward a sound economic application long run marginal costs (where all costs are considered variable).

7. The TSLRIC(MCI) method utilizes a "blank slate" approach that starts with the locations of existing routes and facilities and applies the most modern, least cost technology.

8. Both TSLRIC(SNET) and TSLRIC(MCI)are forward looking, long run studies that measure total service incremental costs and employ principles of cost causation.

9. TSLRIC(SNET) must include all costs that conceivably change as a function of change in demand for the service, including fixed costs that will be incurred to produce either an increment of output of a particular service or the incremental cost incurred by continuing to offer the entire service and including the incremental cost that would be avoided if either output were not expanded by that amount or if the output of the entire service were abandoned.

10. TSLRIC(SNET) reflects SNET's actual technology investment in its public switched network and, by design, incorporates all new technology commitments and plant additions actually expected to occur within the associated planning horizon.

11. TSLRIC(MCI) would create a hypothetical network where the economic composition of that network will increasingly have no relationship to the physical reality of the local exchange network.

12. MCI has only completed one long run cost study to date using the techniques proposed in this proceeding. The purpose of the study was to examine residential service on a nationwide basis.

13. The adoption of TSLRIC(MCI) would delay the introduction of unbundled local exchange services for use by competitive providers.

14. TSLRIC(SNET) is consistent with prior Department decisions.

15. TSLRIC(SNET) will permit the determination of the total long run incremental cost of each service under review.

16. Public Act 94-83 does not require changes in the current cost of service methodology.

17. In establishing price, it is essential to provide some level of contribution above incremental costs to recover all investment costs and associated expenses.

B. CONCLUSIONS

1. The evidence submitted in this proceeding is insufficient to support Department endorsement of TSLRIC(MCI).

2. SNET's current methods of performing cost of service analysis for this Department continue to be appropriate in light of Public Act 94-83.

V. ORDERS

1. SNET shall continue to examine its costs as used in its current LRIC analysis to include all costs as variable.

2. SNET shall produce a TSLRIC(SNET) for all of its services, including unbundled services that conforms to the principles and precepts in Findings of Fact No. 2 and No. 9 and that are consistent with the Orders herein..

3. Sunk costs for investments that are not going to be used in the future to provide voice, narrow band and broad band telecommunications services shall not be used in TSLRIC(SNET) studies and must be separately identified.

4. The Orders in Docket Nos. 88-03-31 and 88-12-05 related to cost of service methodology are included in the instant Docket.